

Joint Legislative Budget Committee

Staff Memorandum

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DATE: March 30, 2007

TO: Senator Timothy Bee, Senate President
Representative Jim Weiers, Speaker of the House

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: ESTIMATED CLASSROOM SITE FUND PER PUPIL AMOUNT FOR FY 2008

A.R.S. § 15-977 requires the JLBC Staff to determine the Classroom Site Fund (CSF) per pupil distribution for the following budget year by March 30. The CSF was established by Proposition 301 from the November 2000 General Election. It receives funding from the 0.6¢ education sales tax established by Proposition 301 and from growth in K-12 state trust land revenues. The JLBC Staff estimates that the per pupil amount for FY 2008 will be \$401.

Statutory Formula

A.R.S. § 15-977(B)(1) specifies that the estimated per pupil funding amount from the CSF for a given budget year is to be computed using the estimated “weighted” student count for the current year and estimated resources in the CSF for the budget year. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the current year will be 1,274,996 and the JLBC Staff projects that the CSF will have \$510,777,600 in available resources for FY 2008 apart from any adjustment for cumulative prior year shortfalls. It is from these 2 figures that we have derived the \$401 per pupil CSF estimate for FY 2008 ($\$510,777,600 / 1,274,996 = \401 per weighted pupil) (*see attachment*).

Estimated Weighted Student Count

The estimated FY 2008 weighted student count of 1,274,996 is based on preliminary 100-day Average Daily Membership (ADM) counts from school districts for the current year (FY 2007) and projected 100-day ADM counts for charter schools for next year (FY 2008). This is because CSF allocations are based on “student counts,” which in statute means “prior year” ADM for districts (FY 2007 for the FY 2008 distribution) and “current year” ADM for charter schools (FY 2008 for the FY 2008 distribution). The portion of the estimated count that pertains to charter schools therefore is more uncertain than the district portion because it will depend on actual charter school ADM growth next year.

ADE’s student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and from the Department of Juvenile Corrections (DJC), since they also receive CSF funding. Per pupil allocations for public schools and DJC are based on their “Group A weighted” students counts pursuant to A.R.S. § 15-977(G). ASDB allocations are based on its “Group B weighted” counts pursuant to A.R.S. § 15-977(L).

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Estimated CSF Revenues

The CSF revenue estimate of \$510,777,600 for FY 2008 assumes 8.1% growth in Proposition 301 sales tax revenues for FY 2007 and 3.8% in additional growth for FY 2008. The assumed 8.1% growth rate for FY 2007 is the JLBC Staff estimate for the current year. The assumed FY 2008 growth rate of 3.8% reflects the JLBC March 2007 Consensus Forecast for FY 2008 sales tax revenues. The FY 2008 consensus forecast was derived by equally weighting the Finance Advisory Committee forecast average, the University of Arizona Economic and Business Research (EBR) model baseline estimate, the EBR conservative estimate and the JLBC Staff forecast.

The \$510,777,600 estimate also includes an estimated \$100,697,900 in K-12 endowment earnings for FY 2008. Proposition 301 requires all K-12 endowment earnings above \$72,263,000 to be deposited into the CSF. Based on currently available data from the State Treasurer and State Land Department, total K-12 endowment earnings for FY 2008 are expected to be \$172,960,900. Of that amount, \$72,263,000 will be used for Basic State Aid and School Facilities Board Debt service and the remaining \$100,697,900 will be deposited into the CSF. The \$100,697,900 estimate is \$48,905,500 higher than the current FY 2007 JLBC Staff estimate of \$51,792,400 due to anticipated growth in land sales income and overall investment returns for FY 2008.

Potential Impact of Estimation Error

The March 30 estimates are based on projected estimates of sales tax revenues, endowment earnings, carry forward amounts, student counts, and other factors. If revenue factors or student counts vary from the assumptions, more funding will end up being available per pupil than anticipated, and vice versa.

If the March 30 per pupil estimate is too *high*, recipients will receive only what is available for distribution from the CSF for the year, which would be less than the March 30 estimate would provide. Under this circumstance, A.R.S. §§ 15-977(M) and 15-978 would allow school districts to issue “warrants” (short term loans from commercial banks) to temporarily make up the difference. Districts would then have to pay back the warrants with interest the following year. Charter schools do not have statutory authority to issue warrants, however, so would have to cover any CSF shortfall with alternative funding, such as from separately-arranged bank financing.

If the March 30 per pupil estimate is too *low*, recipients potentially could receive at least a portion of the surplus funding anyway in FY 2008 through prior year backpayments authorized by A.R.S. § 15-977(K). Otherwise surplus monies would be carried forward into FY 2009 and factored into CSF per pupil computations for that year.

The March 30 estimate for FY 2008 assumes that ADE will use a projected FY 2007 CSF surplus of \$27 per weighted pupil (\$360 per pupil revised estimate versus \$333 original = \$27) for prior year backpayments authorized in A.R.S. § 15-977(K). A surplus is projected for FY 2007 due to higher than expected revenues from both the Proposition 301 sales tax and from K-12 endowment earnings for the year. This surplus is currently estimated at \$34.0 million, which would provide enough funding to eliminate about 2/3 of the \$51.4 million CSF shortfall that ADE indicates has occurred cumulatively since FY 2002 (the first year of CSF allocations). CSF shortfalls occurred in FY 2002, FY 2003 and FY 2006 because actual CSF revenues for those years were not sufficient to fund their respective March 30 per pupil estimates. In that regard, it should be noted that the current \$401 per pupil estimate for FY 2008 does not include adjustments for contingencies related to revenue growth, enrollment growth, or the timing of land trust revenue distributions for FY 2008. Current law does not make provisions for such adjustments.

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RS/SSC:ym

Attachment

xc: Senator Karen Johnson, Chairman, Senate K-12 Education Committee
Representative Mark Anderson, Chairman, House K-12 Education Committee
Senator Robert Burns, Chairman, Appropriations Committee
Representative Russell Pearce, Chairman, Appropriations Committee
Tom Horne, Superintendent of Public Instruction
James Apperson, Director, OSPB
Brad Regens, House
Karla Phillips, House
Brian Lockery, House
Cristina Arzaga-Williams, House
Chris Kotterman, House
Michael Hunter, Senate
Javan Mesnard, Senate
Dawn Nazary, Senate
Nikki Amberg, Senate
Greg Ensell, Senate

Estimated Classroom Site Fund Per Pupil Allocation for FY 2008

JLBC Staff

3/30/2007

Notes:

1. "Sales Tax" revenue estimates for FY 2007 (revised) and FY 2008 assume 8.1% and 3.8% sales tax growth, respectively.
2. "Prop 301 Expenditure" estimates for FY 2007 and FY 2008 are based on the distribution formula in A.R.S. § 42-5029(E).
3. "Endowment Earnings" estimates for FY 2007 (revised) and FY 2008 are JLBC Staff projections based on currently available information from the State Treasurer and State Land Department.
4. The "Weighted Student Count" estimates for FY 2007 and FY 2008 are from ADE and include ASDB and DJC.

| | | (original) | (revised) | (estimated) |
|--------------------------|---------|------------|-----------|-------------|
| | FY 2006 | FY 2007 | FY 2007 | FY 2008 |
| Prop 301 Revenues | | | | |

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|-----------|-------------|-------------|-------------|-------------|
| Sales Tax | 621,779,800 | 660,186,000 | 672,144,000 | 697,685,500 |
|-----------|-------------|-------------|-------------|-------------|

Prop 301 Expenditures

| | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|
| SFB Debt Service | 65,805,000 | 65,805,000 | 64,218,100 | 64,238,200 |
| Universities | 66,717,000 | 71,325,700 | 72,951,100 | 76,013,700 |
| Community Colleges | 16,679,200 | 17,831,400 | 18,237,800 | 19,003,400 |
| Tribal Assistance | 544,000 | 542,900 | 558,100 | 570,000 |
| Additional School Days | 86,280,500 | 86,280,500 | 86,280,500 | 86,280,500 |
| School Safety | 7,800,000 | 7,800,000 | 7,800,000 | 7,800,000 |
| Character Education Matching Grants | 200,000 | 200,000 | 200,000 | 200,000 |
| Accountability Measures / SAIS | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 |
| Failing Schools Tutoring Fund | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Income Tax Credit for Sales Tax Paid | 25,000,000 | 25,000,000 | 25,000,000 | 25,000,000 |
| Classroom Site Fund | 344,254,100 | 376,900,500 | 388,398,400 | 410,079,700 |
| Total (sales tax only) | 621,779,800 | 660,186,000 | 672,144,000 | 697,685,500 |

Classroom Site Fund Revenues

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|--------------------------|-------------|-------------|-------------|-------------|
| Prop 301 Sales Tax | 344,254,100 | 376,900,500 | 388,398,400 | 410,079,700 |
| Endowment Earnings | 17,834,600 | 29,650,000 | 51,792,400 | 100,697,900 |
| Prior Year Carryforward | 17,771,600 | - | - | - |
| Total Estimated Revenues | 379,860,300 | 406,550,500 | 440,190,800 | 510,777,600 |

Classroom Site Fund Expenditures

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|---|-------------|-------------|---------------------------|--------------|
| Net Revenues Available for Current Year | 379,860,300 | 406,550,500 | 440,190,800 | 510,777,600 |
| Weighted Student Count | 1,184,370 | 1,219,385 | 1,222,825 | 1,274,996 |
| Available Funding Per Weighted Pupil | \$320.43 | \$333 | \$360 (see note below) | \$401 |

Note: The \$360 revised estimate for FY 2007 does not change the official \$333 per pupil amount for the year, but indicates that surplus monies are projected to be available for FY 2007. If surplus monies are available, ADE can use them to make backpayments for prior year shortfalls pursuant to ARS 15-977(K).